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Phone call between Anthony Allen and John Ewan

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Duration: 4 minutes, 23 seconds

ALLEN: Hi John, how are you doing?

EWAN: Hi, um, doing okay. How are things looking for you?

ALLEN: Uh, yeah we're about back to square one aren't we? Uh, we're back to where we were last—I mean we're fine, you know, as a bank, we're fine, funding-wise but, um... You know, back to the same confusion about uh, about LIBORs and you know, where should they be set and... I'm not getting any complaints don't get me wrong, I mean people aren't questioning it. But um, I guess, you know, we're back in the spotlight to where we were six, seven months ago.

EWAN: Mhmm.

ALLEN: How about you, you getting the same sort of stuff?

EWAN: I'm—well I mean I'm—I'm getting an enormous amount of flak from everybody, um, who are saying, um... more basically, a lot of awful things are being said, but principally it's, um, "How the hell, um, can you defend LIBORs being this low?" and also, "How the hell do you set LIBORs anyway, if there is no interbank market?"

ALLEN: Well it gets back to the perception again, you know, it's where you perceive you can take money, I mean it's back to the definition, so...

EWAN: Absolutely. Obviously, um, but, um, yeah, okay, so um...

ALLEN: I mean that's a credit issue. I mean {unintelligible} fourteen or sixteen banks, some banks obviously realize their funding cost is greater than other banks, and—and they, and—they will set their

level as to where they think LIBOR will—where they think they can get money if they were to go into the market and get it, I mean, I appreciate there's no offers.

EWAN: Mhmm, yeah.

ALLEN: There's no offers. I mean, you know... This is exactly like the ICAP New York rate. There are no offers in New York either, so...

EWAN: Yeah, I mean that's just, okay, so, I mean I'm not happy about the fact that it's—it's—it has peaked way above, but, um yeah, it is—it, I mean it's just a line in the sand. What's it based on? Nothing.

ALLEN: No, I—I know where you're coming from. I think this is more about... It's about what the definition again, it's about education. People still think it should be based on where an actual cash offer is... I mean, why—why aren't people setting it at ten percent then?

EWAN: Right.

ALLEN: There isn't a level for it, so... it has to be for your name—for Rabobank we're very, very liquid. So, where we think we would get it, I mean, you know there's a flight to quality going on for good names. We're picking up money cheaper than most people on the street I'd imagine.

EWAN: Mhmm, yeah, I, yeah—

ALLEN: So, so we—we are setting stuff at the lower end of the spectrum, just purely because that's where—even then I think we're too high, if anything you know, 'cause I—I wouldn't—I wouldn't—I would never pay there in the market. A, 'cause you don't need to pay. You know, we're, 'cause we're so liquid. But if we—if we had to, that, you know, that's how we gauge our levels.

EWAN: Sure.

ALLEN: And, and that's, you know, I think, that's where the definition, that's, that's where it's derived from.

EWAN: Yeah, sure. And I've just been ringing around everybody, sort of random handfuls of people, um, it just so happened that your, you know it's your turn today, and it's just, and I'm happy about that, and it's just as long as you have a view on how you set your LIBORs—

ALLEN: Absolutely.

EWAN: —that's fine. That's fine.

ALLEN: I mean I'm—I'm willing to defend that. That's, I mean, when people start to question it, again, I'm not getting sensible, hold on a minute, this is, we're back to where we were last year. Go back to the definition. This is what we're judging on.

EWAN: Mhmm.

ALLEN: Um, and if people think they're too low, well then I'm—I'm—I'm happy to start that conversation. You know, we're not just—we're not bragging about it, but as a triple-A rated bank, you know, we should be miles away from where someone like UBS is at the moment.

EWAN: Yep.

ALLEN: That's just the way it is.

EWAN: It is just the way it is. And um—

ALLEN: In these horrible markets, people are sort of, you know, trying to point their finger and blame other people and I don't think that's right. Yeah, okay.

EWAN: Okay, that's fine, in that case then, um—

ALLEN: I don't have any issues with it, John. And I don't—I don't see any other way of doing it. You're right, the ICAP money is fifty, sixty basis points above. I have no idea where they're getting that from. Unless the domestic market's actually trading there, unless—what is that definition based off? What, how do they judge it? Is it actually where it's traded?

EWAN: No, um, it's where it's, it's the EURIBOR definition—it's where you think a prime bank would fund—

ALLEN: Oh okay.

EWAN: —would get funding. My only guess as to why it could be different is that um, they have, I don't know how many, but we think it's about twenty-two, twenty-four banks in it, and they don't—they don't top and tail. Or if they do, they only top and tail one or two banks.

ALLEN: Right.

EWAN: So, I mean, they're going to have all of the same banks as we have in the quote plus a longer tail of relatively shitty U.S. institutions.

ALLEN: Yeah, okay.

EWAN: Which could force it up. I mean that's—that—I mean, god knows logic doesn't seem to work with anything at the moment but that's the closest I can get to a rational explanation.

ALLEN: Oh okay, fair enough. Alright.

EWAN: Okay then.

ALLEN: Okay.

EWAN: Cheers.

ALLEN: Bye.

EWAN: Good bye.